



Technology Leasing

The Opportunity 2010-20

August 2010

Abstract:

Technology Leasing is a substantial and important alternative to loan financing for SMEs in developed markets. Barriers to entry are high, particularly through funding and technology. It remains an attractive financial services sector investment through its steady state ROEs in the mid teens and the upside potential for major expansion into developing markets .

In Europe the sector has become highly consolidated in pursuit of higher ROEs through scale. However, the credit crisis has shown that despite current high demand for the product, the few remaining leasing groups are not capable of filling the gap left by banks. They are all suffering from the immediate issues of funding issues, portfolio impairment; poor IT architecture, under pricing, excessive compensation and benefits; as well as ongoing challenges of a lack of product development and poor customer service.

The successful global leasing platform of 2010-20 will not be a further consolidation of existing companies. The right strategy is a 5-10 year growth strategy based on the right technology, sales and organisational structure. Only through a leap directly to an up to date organisation can the next level of cost efficiencies be achieved, and the latest generation technology based products and services be delivered . Such a 'fit for purpose' platform is also the most attractive base to enter the largest emerging markets, where the substantial growth over the next 20 years lies.

A new platform strategy requires a substantial equity partner that is prepared to back a 5-10 year strategic plan, and whose presence will attract further funding. The particular combination of annuity like returns from the mature markets with the enhanced potential of become a market leader in at least one major developing markets is most likely to be attractive to state backed funder or wealth fund that values the macroeconomic aspect .

TECHNOLOGY LEASING IS ...

... funding of small capital equipment investments by business

... in technology

... from £500 up to £500,000

.... sourced from dealers and vendors

... using credit scoring

TECHNOLOGY LEASING MATTERS

All figures from FLA and LeaseEurope

i) European Leasing 2008 Market €300BN

ii) Equipment Leasing 36%/€100BM

iii) UK 20%, Ger 18%, Fr 13.5%, It 13.5%

iv) 2008 first contraction since 1994

Within the developed economies, leasing funds up to ~30% of all fixed capital investment, reaching a third of SME's seeking external funding.

In developing economies supporting the capital investment of SMEs particularly through the adoption and upgrading of technology, is a major macroeconomic priority

CURRENT PLAYERS AND STATE OF MARKET

History of consolidation and profile of current UK/European/Global market by major players

Competitive cul de sac with low prices, income acceleration, income sharing

Conclusion: A big market with big players and big problems

CREDIT CRISIS EXPOSES SEVERE WEAKNESSES

Consolidation in pursuit of economies of scale from back office cost reduction

Made possible by cheap credit and suitability of leased assets for securitisation

Sustained growth period lead to underpricing of risk

Outsourcing of sales to brokers and reliance on relationship vs innovation drove up sales commissions

Diminishing returns from back office consolidation. Poor customer service

Achilles heel of multiple IT systems from multiple acquisitions, making data management expensive, complex and preventing rapid evolution of internet and cutting edge customer interfaces.

Data flow to management impeded

Drying up of securitisation results in withdrawal from market as fear of losses combined with broken profitability model based on cheap credit

NO BUYERS

B2B Collections Timescale	
Days Overdue	Provision
0 -30	0 %
30 – 60	0-25%
60 – 90	0-50%
90-180	50-100%

Normal cycle of consolidation terminally unattractive

Very little cost take-out left

Legacy systems and poorly structured organisations make share purchases poor business propositions

Portfolios available - but could represent additional layers of complexity on existing platforms

SMART INVESTMENT IS NEW BUSINESS

Previous global leasing model was to build through acquisition, recouping the premium paid through cost reduction and new multinational customer opportunities

Clearcape Ltd

New model is to start with lowest possible cost base

- Latest IT platform with integrated lease management system and potential to grow. Data management to facilitate instantaneous risk pricing underwriting and portfolio statistics..
- Management team selected for expertise in Sales, IT, Risk, Cust Service and HR, Some drawn from other sectors where technology is more advanced and profitable--(retail, telecoms)
- Right sized, right cost, new employees taking advantage of employment market conditions
- Purchase and integrate volume generating relationships, offering equity or long term incentives to sales team and/or partners. Portfolio purchases as appropriate.
- Funding from long term low risk investors with developing financial infrastructure interest

HOW

Funding

5-10 year plan funded

Equity from key funder (eg Bank of China) to create pool of investors

Funding from (overlapping?) pool by loan, and return to securitisation if possible

IT

Equity or co-development with systems developer
Bridge developed to developing markets via principal funder(s)

Sales

Buy/recruit volume relationships with dealers
Share long term upside but do not accelerate
Price based on new costs and income retention/sharing

Buy portfolios if can be put on new platform within acceptable time and cost

Organisation

Hire from scratch but with relevant skills from other sectors (customer service, account management, non finance sales)

WHAT NEXT?

Let's get working on real business development

Email: kevin.kennedy@clearcape.co.uk

Tel: 00 44 7867 905100

Confidential